

Your checklist for smarter procurement

Understand suppliers

Overall we must identify those suppliers who can offer best value for money and have the appropriate skills and experience to provide a better quality of service as opposed to the lowest price.

Just because we can offer large contracts, it does not follow that all suppliers will fall over themselves to win our business. There are many examples where potentially excellent suppliers are put off by our bureaucracy and size. It may be that these are the very suppliers we need. Therefore we must do our utmost to make ourselves open and approachable.

Further reading and information

Institute of Directors booklet on 'Purchasing'.

Actions to maximise value

- Consider commercial issues at the design/specification stage
- Don't order specials – use standard items if you can
- Find out if others are buying the same items – combine requirements or use their contracts
- Use standard tender documents, not expensive lawyers to redraft
- Commit to volume rather than ad hoc ordering
- Use e-auctions to create competitive pressure
- Be open and receptive to suppliers.

Questions to ask your procurement managers

- How much do we spend – where do we spend most time and effort?
- Do we have multiple suppliers for the same requirements – could we reduce them?
- Who are the top fifty suppliers by value?
- Do other agencies use the same suppliers?
- Do we differentiate our approach by risk/cost?
- Do we consider commercial issues at an early stage in the procurement process?
- Are our procurement staff suitably qualified?
- How do we train our staff and keep them up-to-date?



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Managing Public Sector Procurement

Good procurement is essential

Every pound saved is a pound that can be spent on providing better public services



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Understanding procurement

Recommended actions

Introduction

The public sector spends over £100 billion each year on procuring goods and services. We are required to demonstrate full accountability for our actions and ensure the use of best practice whilst at the same time obtaining excellent value for money.

Value for money is the optimum balance of whole life cost and fitness for purpose. We can enhance this by using our combined expenditure to support wider policy objectives and to ensure our suppliers give better service.

Procurement is a process that starts with the identification of a need and goes through many stages, ending with the conclusion of a service or disposal of an asset. It involves a large number of people who must work together to obtain the best results. Remember that decisions taken in the early stages can greatly influence the eventual outcome.

We need to comply with UK and EU procurement regulations. However these can be very flexible provided that specialist advice is taken at the very start of the procurement process.

Elected politicians and senior management can assure best results by ensuring they understand the processes within their own organisations and by providing leadership and constructive challenge.

Understand your spend pattern

Find out how much is being spent, on what, and with which suppliers. This spend analysis is the crucial first step to controlling expenditure and obtaining the best out of the supply base.

Create a spend analysis

In all organisations a similar pattern of spend applies:

- the low value 50% of all orders amount to only 2% of expenditure
- the high value 2% of orders account for 50% of expenditure.

This implies that we should put most effort on the top 2% of contracts and the 50 to 100 suppliers that fulfil them. Find out where your professionals are spending their time.

But remember, price is not everything

This spend analysis does not give full consideration to low value items which, if they fail or are not available, can severely damage your performance. Also it does not take account of whether a market is competitive or not. To provide better guidance we use a technique called 'Supply Positioning'.

Supply Positioning plots all purchases on a graph with one axis defined as 'cost' and the other 'risk'. For example, there is a higher risk if only a few suppliers are available than if there were many.

The result is then segmented into four boxes as the diagram opposite illustrates.



Inset in the boxes you can see words that describe the procurement priorities that are required in each segment.

- MINIMISE** You can minimise time on low risk/low cost items by using long term contracts and combining with other buyers, perhaps using their contracts.
- MANAGE SUPPLIERS** Conversely high risk/high cost items call for close management of the suppliers since any failure would have extensive repercussions for the delivery of your services. It is in this area that highly skilled procurement staff should be used from the outset to ensure that contracts are fit for purpose, that selection criteria underpin the business need and to seek out innovative solutions.
- ENSURE SUPPLY** The priority for high risk/low cost items is to ensure continuous supply. Price is not important whereas supply failure could be dramatic.
- DRIVE COST** High cost items, in those markets where there are plenty of suppliers, provide an opportunity for the buying organisation to leverage its purchasing power to obtain financially attractive deals. This calls for buyers with extensive market knowledge or collaboration across organisations.